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DE RUEHAK #0218 0321638
ZNY CCCCC ZZH
P 011638Z FEB 07
FM AMEMBASSY ANKARA
TO RUEHGB/AMEMBASSY BAGHDAD PRIORITY 0878
RUEHC/SECSTATE WASHDC PRIORITY 0805
INFO RUCNRAO/IRAQ COLLECTIVE PRIORITY
RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY
RHMFIASS/HQ USCENTCOM MACDILL AFB FL PRIORITY
RHEHAAA/NSC WASHDC PRIORITY
RHMFIASS/HQ USEUCOM VAIHINGEN GE PRIORITY
RUEUITH/ODC ANKARA TU PRIORITY
RUEKJCS/JOINT STAFF WASHDC//J-3/J-5// PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUEKJCS/SECDEF WASHDC//USDP:PDUSDP/ISA:EUR/ISA:NESA/DSCA// PRIORITY
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C O N F I D E N T I A L ANKARA 000218

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E.O. 12958: DECL: 01/31/2017
TAGS: ETRD EPET PREL TU IZ
SUBJECT: TURKEY-IRAQ: SOMO CRISIS ABATES, FOR NOW

REF: A. STATE 12518
1B. ANKARA 174

Classified By: DEP/ECON/C ANDY SNOW FOR REASONS 1.5 B AND D

11. (C) SUMMARY: The trade crisis unleashed when SOMO advised Turkish fuel product suppliers seeking to renew 2006 contracts to deal with the KRG (as opposed to the central GOI) seems to have abated. Contacts confirm press accounts that the GOI has assured the GOT that its suppliers should continue to deal with the central government and that SOMO intends to apply past agreements. SOMO has failed to implement past agreements and the current "solution" is another short term extension, so SOMO trade will continue to be problematic. End Summary.

12. (C) On January 26 the Turkish Foreign Trade Undersecretariat (FTU) told us that SOMO trade stopped after Turkish fuel product suppliers received a letter advising them to make contact with the KRG for future business (REF B). (30-40 % of petroleum products imported by SOMO come from Turkey.) Trade Minister Tuzmen made combative statements, trumpeted in the press, emphasizing that Turkey's interlocutor or this special transit business was Baghdad, not the KRG. There were reports in the press that Turkey might retaliate by stopping its electricity exports to Iraq.

13. (C) On January 31, FTU informed us that high level officials had communicated and resolved the issue by SOMO reaffirming that Baghdad was Turkey's interlocutor for this business and attesting to the validity of old agreements. The U.S. military liaison officer at the border reported good negotiations at the border customs meeting Jan. 31, with the expectation that some of the Turkish contracts would be extended through February. The press broadly reported the agreement and the solution to the crisis on February 1. Some press reports stated that SOMO extended Turkish companies' contracts until February 18.

COMMENT- SHORT TERM SOLUTION, BUT...

14. (C) The crisis erupted amid frustrations about unsuccessful extension of short-term contracts with SOMO. We do not know all the details of the proximate problem or the supposed solution. It appears to be another short-term

solution and at some point in February, problems will likely surface again. Although Turkish suppliers have persevered in seeking to do business, there is no lack of bad blood between the two sides, primarily from the long history of payment problems and smuggling investigations. Now, SOMO appears to be seeking to reduce its reliance on Turkey, as well as keeping its contracts on a short leash.

¶5. (C) Comment Continued: Turkey is struggling with how to align its significant economic interdependence with northern Iraq with the poor GOT-KRG political relationship. The ill will is related to the PKK and Kirkuk issues, as well as concern that Iraqi Kurdistan will seek independence. Turkey would consider Kurdish independence as an existential threat, and worries that the Kurds, significant autonomy is a step in this direction. Negative rhetoric between Turkey and the Iraqi Kurds) in particular from and directed at KRG President Masoud Barzani) has added fuel to this fire. To have forced the GOT to make oil deals now with the KRG would have been extremely difficult.

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